Manitoba

ANNUAL REPORT

1983 ~1984

The Manitoba Milk Prices Review Commission

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ANNUAL REPORT OF THE MANITOBA MILK PRICES REVIEW COMMISSION

APRIL 1, 1983 - MARCH 31, 1984

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MANITOBA MILK PRICES REVIEW COMMISSION
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July 31, 1984

The Honourable B. Uruski
Minister of Agriculture
Legislative Building
Winnipeg, Manitoba

Sir:

Pursuant to the requirements of Section 7, subsection (1), "The Milk Prices Review Act" being Chapter 63 of Bill 86 assented to July 29, 1980, we have the honour to transmit to you the Annual Report of the Manitoba Milk Prices Review Commission for the year ended March 31, 1984.

Respectfully submitted,

The Manitoba Milk Prices Review Commission

Chairperson

MANITOBA

MINISTER OF AGRICULTURE
WINNIPEG
R3C 0V8

July 31, 1984

To Her Honour
Pearl McGonigal
Lieutenant Governor for the
Province of Manitoba

Your Honour:

I have the honour to present herewith the Annual Report of The Manitoba Milk Prices Review Commission for the year ended March 31, 1984.

Your obedient servant,

Bill Uruski,
Minister of Agriculture

MEMBERS OF THE MANITOBA MILK PRICES REVIEW COMMISSION

Mr. Jesse Vorst	Chairperson
Ms. Wendy Land	Vice-Chairperson
Mr. Ray Matheson	Member
Mr. Oli Narfason	Member
Ms. Marie-Blanche Oliviero	Member
Mr. Esau Turner	Member
Mr. Adrian Strutinsky	Executive Secretary

INTRODUCTION

The Milk Prices Review Act assented to by the Legislative Assembly of Manitoba on 29 July 1980, governs the work and activities of the Commission. Among the wide range of responsibilities assigned to the Commission under the legislation, some of the more important duties include: the development of a cost of production formula as the basis for fixing the price at all levels in the fluid milk industry and exercising the authority to establish the maximum and/or minimum prices for milk sold to consumers when the Commission deems such controls necessary.

The Commission has continued its extensive discussions with officials and representatives of the Manitoba Milk Producers' Marketing Board, milk processors in Manitoba, distributors and jobbers, and the Consumers' Association of Canada, Manitoba Branch. Intensive contacts were established and maintained with similar authorities and with public servants in other jurisdictions. These discussions have enabled the Commission to increase its understanding of the fluid milk industry and to receive valuable advice and suggestions relating to the discharge of its responsibilities.

The Commission, through a special Cost-of-Production Subcommittee, conducted an extensive study of the cost-of-production at the farm level. This investigation, aided by much appreciated contacts with the Manitoba Milk Producers' Marketing Board, resulted in a revision of the existing cost-of-production formula (as laid down in Manitoba Regulation 165/82 amending its Order No. 2/82-Manitoba Regulation No. 72/82- and its formula No. 1/82) and implemented as of 20 February 1984 Order No. 1/84, Regulation No. 26/84. The revision incorporates current accounting and dairy practices; it also includes the periodic update of any formula due to changes in the price structure and levels of farm inputs. As a result of this revision, the Class I price payable to producers increased to $51.00/HL from

$46.33009/HL, an increase of $4.67 or 4.67¢/L.

The Commission and the Cost-of-Production Subcommittee, continues to address important elements of farm-gate fluid milk pricing such as;

(a) methods of up-dating the existing formula

(b) design and data requirements for the undertaking of a new cost-of-production study under the auspices of the Manitoba Milk Producers' Marketing Board

(c) indexing of assets

(d) butterfat differential

(e) the functioning of the present 2% trigger mechanism

(f) the size of the so-called sleeve

(g) changes in fluid consumption as a result of pricing decisions.

PROCESSOR, DISTRIBUTOR AND RETAILER MATTERS

The year was, once again, characterized by an intensive price-war at the retail level, aided (if not caused) by a sizable increase in the rebates provided to the retailers by the processors. The following effects of these developments remained apparent:

(a) pressure on smaller stores which cannot provide price reductions to consumers while not benefitting from processors' rebates (based on both volume and competitive strength of the retailer vs. the dairies).

(b) a large gap between store prices and delivery charges, threatening the service carried out by processing firms and independent distributors.

(c) erosion of the market position of those processors who cannot provide large discounts because of small profit margins or of insufficient ability to sustain, over

an extended period, operational losses through price-cutting.

While the Commission had discussed and, subsequently, communicated to the Minister of Agriculture its concern about these developments, the situation became acute following the increase in the producers' price on 20 February 1984. Some processors increased the official wholesale prices by 12¢/L and 14¢/L for 2% and homogenized milk, respectively. A portion of this price augmentation was used, however, to allow a further escalation of the so-called volume rebates or discounts. By 27 February 1984, the retail price of 1L carton homogenized milk had increased in Winnipeg chain stores by 10¢, in Winnipeg small and convenience stores by up to 18¢, and in rural areas by amounts as high as 20¢.

On 29 February 1984, the Manitoba Fluid Milk Commission was established under the Natural Products Marketing Act, by Order-in-Council 215/84 and was empowered to regulate prices at the wholesale level of the industry. The Manitoba Fluid Milk Commission decided as of 5 March 1984 to establish wholesale prices for all types of milk at no more than 7¢/L higher than the price for the corresponding volume-package in effect on 31 January 1984; the Manitoba Milk Prices Review Commission fixed the maximum retail prices as of 5 March 1984 at no more than 8¢/L above the price effect on 31 January 1984.

The Commission announced that it would initiate major studies in the cost and revenue structure of the industry (past the farm-gate) to obtain a better insight into this sector than available on the basis of current reporting practices.

The Commission held numerous meetings with various components of the industry, both before and after the rollback of 5 March 1984. The Commission engaged the Women's Institute of Manitoba to conduct price surveys in rural parts of the

province. The Consumers' Association of Canada (Manitoba Branch) was approached with the request to take over the Commission's price monitoring in urban areas. These activities will, in due course, be aided by a Commission directive to retailers to clearly display, in the interest of the buying public, prices of various types of milk and sizes of containers being sold on their shelves.

INTERNAL MATTERS

The Manitoba Milk Prices Review Commission met seventeen times and the Manitoba Fluid Milk Commission established by Manitoba Regulation No. 35/84 on 1 March 1984, met once during the reporting year. The various Subcommittees met on four occasions.

The Commission's daily activities were performed by Mr. Adrian W. Strutinsky, serving as Executive Secretary on part-time loan from the Economic Analysis Branch, Manitoba Department of Agriculture, and Ms. Jessie R. Mamaril, Secretary-Bookkeeper. Their services are invaluable towards the successful operation of the Commission. The Commission retained Mr. Henry B. Monk, Q. C. as counsel and the firm of Magnus and Buffie, Chartered Accountants, as auditors for processors' returns. Internal audits are performed by the Provincial Auditor's office.

THE MANITOBA MILK PRICES REVIEW COMMISSION

Auditor's Report and Financial Statements
for the year ended March 31, 1984

PROVINCE OF MANITOBA
PROVINCIAL AUDITOR

MANITOBA

PROVINCE OF MANITOBA
PROVINCIAL AUDITOR

THE MANITOBA MILK PRICES REVIEW COMMISSION

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the financial statements, being Exhibits A and B, of The Manitoba Milk Prices Review Commission for the fiscal year ended March 31, 1984. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Commission as at March 31, 1984 and the results of its operations for the year then ended in accordance with the accounting policies stated in note 2 to the financial statements applied on a basis consistent with that of the preceding year.

W. K. Ziprick, C.A.,
Provincial Auditor.

June 27, 1984,
Winnipeg, Manitoba.

Exhibit A

THE MANITOBA MILK PRICES REVIEW COMMISSION

Balance Sheet
as at March 31, 1984
(with 1983 figures for comparison)

	1984	1983
ASSETS		
Current Assets:		
Cash	$ 6,370	$ 10,894
Accountable advances	1,000	-
Prepaid expenses	1,214	-
	$ 8,584	$ 10,894
LIABILITIES AND SURPLUS		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 2,705	$ 2,111
Surplus, Exhibit B	5,879	8,783
	$ 8,584	$ 10,894

Exhibit B

THE MANITOBA MILK PRICES REVIEW COMMISSION

Statement of Income and Expenditure and Surplus
for the year ended March 31, 1984
(with 1983 figures for comparison)

	1984	1983
Income:		
Grant from the Province of Manitoba	$ 45,349	$ 59,268
Interest income	371	790
	45,720	60,058
Expenditure:		
Annual report	$ 341	$ 783
Commission - salaries and benefits	13,114	12,610
- travel and meetings	4,274	7,388
Office and postage	719	1,446
Professional fees	4,214	11,234
Salaries and benefits (Note 3)	23,293	18,006
Sundry	1,080	994
Telephone	1,589	1,103
	48,624	53,564
Income (under) over expenditure	(2,904)	6,494
Surplus, beginning of the year	8,783	2,289
Surplus, end of the year, Exhibit A	$ 5,879	$ 8,783

THE MANITOBA MILK PRICES REVIEW COMMISSION

Notes to Financial Statements

1. Nature of the Commission

The Milk Prices Review Act was enacted effective September 29, 1980. This Act established The Manitoba Milk Prices Review Commission to monitor prices of fluid milk and, if necessary, to set maximum and/or minimum prices at which fluid milk may be sold to consumers.

2. Accounting Policies

a) The Commission uses the accrual basis of accounting.

b) Office equipment purchases are charged to operations in the year of acquisition.

3. Services Provided by the Province at no Charge

The Province of Manitoba provides the services of an Executive Secretary, office accommodations and other miscellaneous administrative services at no charge to the Commission.

Manitoba Regulation 26/84

Being

THE MANITOBA MILK PRICES REVIEW COMMISSION ORDER NO. 1/84

Made Pursuant to The Milk Prices Review Act Establishing a Cost of Production Formula Reflecting the Cost of Production of Milk for Use as Fluid Milk in Manitoba and Fixing the Price Determined by that Formula for the Sale of Milk by a Producer or a Producer Board for Use as Fluid Milk, Repealing the Manitoba Regulations Referred to in Section 5 of the Order

(Filed February 17, 1984)

ORDER

1. In this order —
   (a) "Act" means The Milk Prices Review Act.
   (b) Other words have the same meaning as in the Act.

2. The Commission hereby —
   (a) establishes pursuant to subsection 2 of section 3 of the Act, on the basis of information obtained from a survey of the cost of production of milk on farms in Manitoba, the cost of production formula No. 1/84 which is set forth in Schedule 1 of this Order, and reflects the cost of producing milk for use as fluid milk in Manitoba including a reasonable return on their investment to the producers of milk, and
   (b) fixes the price as determined by the formula at which milk shall be sold by a producer or producer board for use as fluid milk as hereinafter set out in section 3 hereof.

3. Subject to section 4 the Commission hereby establishes tne price hereinafter set out as the price at which milk to be processed into fluid milk shall be sold by a producer or the Manitoba Milk Producers' Marketing Board to any processor in Manitoba

THE PRICE

The price for 1 hectolitre of milk testing 3.6 kilograms butterfat f.o.b. distributors plant	$51.00

4. The price established by section 3 of this Order shall be increased or decreased at the rate of 48 cents for each one-tenth of a kilogram above or below the test of 3.6 kilograms of butterfat per hectolitre of milk.

5. Manitoba Regulations Nos. 8/80, 202/80, 165/82, 72/82, 143/81 and 184/77 are hereby repealed.

This Order shall come into force on the 20th day of February, 1984, or on the day it is filed with the Registrar of Regulations, whichever is the later.

IN WITNESS WHEREOF The Manitoba Milk Prices Review Commission has hereunto affixed its seal duly attested by the hands of its proper officers in that behalf this 17th day of February, A.D. 1984.

THE MANITOBA MILK PRICES
REVIEW COMMISSION

per *"Jesse Vorst"*
Jesse Vorst, Chairman

(S E A L)

per *"Adrian Strutinsky"*
Adrian Strutinsky, Acting Secretary

This is Exhibit "A" to the
Certificate of Jesse Vorst
dated the 17th day of February,
A.D. 1984

(S E A L) *"Jesse Vorst"*
Chairman, The Manitoba Milk Prices
Review Commission

SCHEDULE I

Formula 1/84

January, 1984, costs per hectolitre	
Operating Expenses	$ 6.81
Feed	15.55
Direct labour	9.91
Management fee	3.96
Herd replacement	3.29
Depreciation	3.11
Return on assets	5.30
	$47.93

Step 1 — cost of production formula results
$47.93

Step 2 — add transportation and other marketing costs
$47.93 + $2.00 = $49.93

Step 3 — add buffer (or 10% sleeve) adjustment
$49.93 + $ .70 = $50.63

Step 4 — add differential for Northern cost of production
$50.63 + $ .07 = $50.70

Step 5 — add fluid levy
$50.70 + $ .30 = $51.00

Note: All calculations made exceeding significant digits, totals then rounded to two decimal places.

Manitoba Regulation 38/84

Being

ORDER 2/84 OF THE MANITOBA MILK PRICES REVIEW COMMISSION

Made Under The Milk Prices Review Act

(Filed March 2, 1984)

1. In this order

   (a) "Act" means The Milk Prices Review Act.

   (b) "Retail price" means the maximum price per litre at which milk for use as fluid milk in Manitoba may be sold by any person to a consumer.

   (c) "Historic price" means price per litre (adjusted for litre volume packaged, if any) at which milk for use as fluid milk in Manitoba was being sold to a consumer on or before the 31st day of January, 1984, by any person.

2. Pursuant to section 3 (5) of the Act the Commission hereby establishes the maximum retail price at which fluid milk may be sold by any person as the historic price at which fluid milk was sold by the same person plus 8 cents.

3. This Order shall come into force on the day it is filed with the Registrar of Regulations or on the 5th day of March, whichever is the later.

The Manitoba Milk Prices Review Commission

per *"Jesse Vorst"*
Jesse Vorst, Chairman

per *"Adrian Strutinsky"*
Adrian Strutinsky, Acting Secretary

This is Exhibit "A" to the
Certificate of Jesse Vorst
dated the 1st day of March, 1984.

"Jesse Vorst"
Chairman
The Manitoba Milk Prices Review Commission